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TRANSNATIONAL CORPORATIONS AND RESOURCE FLOWS IN DEVELOPING AFRICAN COUNTRIES

A Note by the ECA Secretariat

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I. INTRODUCTION

1. Among the main objectives of the United Nations General Assembly debates on the New International Economic Order are the need to take measures at international level to:

(a) Regulate the repatriation of profits accruing from the operations of transnational corporations while taking into account the legitimate needs of all the parties;

(b) Promote the reinvestment of profits from transnational corporations in developing countries;

(c) Secure favourable conditions for the transfer of resources to developing countries; and

(d) Ensure that a country's resources are fully utilized for the development of the country concerned. 1/

2. Developing African countries face serious problems in securing adequate resources for development and in ensuring fair remuneration for their exports. These problems are further aggravated by the excessive outflow of resources from the continent to the industrialized nations. One way of looking at this problem is to set it against the background of the operations of transnational corporations. The gravity of the issue is most evident when contrasted with the efforts of these countries to mobilize development resources (external and local) and to achieve their optimal allocation and utilization so as to generate adequate incomes, foreign exchange and employment and to ensure equitable income distribution.

3. The purpose of this paper is to bring to the attention of the world financial community the serious nature of resource outflows especially as a result of the policies and operations of transnational corporations, to show why increased resource retention is necessary and to outline the various forms of resource leakages. No attempt is made to provide an in-depth analysis of sectoral issues or of specific country experience, nor are the issues listed necessarily exhaustive. It is hoped that more specific studies will be undertaken in the near future to provide the basis for policy decisions at national, regional and international levels.

1/ See United Nations General Assembly resolutions 3201 (S-VI) and 3202(S-VI) on the Declaration and the Programme of Action on the Establishment of a New International Economic Order. A comprehensive analysis of the issue of transnational corporations in the world perspective was made by the Centre on Transnational Corporations and was published in a report entitled: Multinational Corporations in World Development (Document No. ST/ECA/190), New York 1973.

II. DEFINING THE DEVELOPMENT STRATEGY WITHIN THE CONTEXT OF TRANSNATIONAL CORPORATIONS

4. Transnational corporations, through their powers to scan the entire earth for resources and investment opportunities, their ability to shift their resources from one industry to another and from country to country and their adoption of a simple goal - worldwide profit maximization - have become the most unique institution of our time. In contrast, most developing African countries are not always clear about their development objectives and priorities, especially with respect to industrial development. 2/ They are also not clear about methods of assessing, mobilizing and utilizing resources to their full potential.

5. The National development plans are not always based on a full knowledge of the country's existing and potential resources but rather on the expectations of foreign aid and technical assistance from the official flows and Development Assistance Committee private foreign investments largely from transnationals. This approach runs counter to the desire of African countries to attain self-reliance in development.

6. The international lending institutions, concerned with meeting the requirements of the capital and money markets which are in effect controlled by the transnational corporations, have failed to provide leadership and guidance to these countries, more especially the least developed among them, by helping them to define clearly their resource and technology policies for development. Developing countries are not asking the right kind of questions about the purchase and acquisition of technology which is becoming increasingly expensive. It is estimated for instance, that about 11 per cent of Great Britain's overseas direct investment was for plants and machinery. In some areas the figure was as high as 21 per cent and in the United States, the average was 27 per cent. 3/ The direct export of machinery therefore seems to be more favourable for the industrialized countries than the training of local manpower to manufacture such machinery in developing countries.

2/ In an effort to fill this gap, ECA evolved an African development strategy. See ECA, Strategy for the African Region in the International Development Strategy for the Third United Nations Development Decade (ECA/RES 332 (XIV), adopted by the ECA Conference of Ministers in March 1979 and the OAU Heads of States in Monrovia in July 1979.

3/ See G.F. Hufbauer and F.M. Adler, Overseas Manufacturing Investment and the Balance of Payments, Tax Policy Research Study No. 1, US Treasury Department; and W.B. Reddaway, Effects of UK Direct Investment Overseas: Final Report, Department of Applied Economics, Cambridge University.

7. Each year, large sums of money are injected into the African economies by Official Development Assistance (ODA) and direct private foreign investment. For instance, in 1975 ODA aid flows to developing countries totalled $13.6 billion while private flows totalled $21.9 billion.4/ Total World Bank and International Development Association (IDA) lending reached $5.9 billion in the same year, of which about $1.5 billion went to Africa. Yet the number of the absolute poor in the developing countries is estimated to reach 715 million in 1985 and 900 million by the year 2000. Since, taking population growth into account, the removal of mass poverty depends upon an increase in economic growth and equitable income distribution, the conclusion can be drawn that there is something basically wrong either in the resources mobilization policy or in their utilization.5/ Through operations such as international competitive bidding and international procurement procedures, the international lending institutions may in fact encourage transnationals to strengthen their capacity to exploit the developing economies and as a result stifle indigenous enterpreneurship. In such cases, the drain of hard-earned resources occurs at every stage of the economic development process.

III. SOME MAJOR FORMS OF RESOURCE LEAKAGES

8. Many forms of leakages can be identified whereby resources flow out of developing countries. Some of these are invisible and very hard to identify The following is an indication of the range of activities associated with transnational corporations which absorb a substantial part of the resources of developing countries: transfer of technology; international shipping and containerization; international air transport; management and consultancy fees; international telecommunications and postal services; banking and insurance; international production, marketing, distribution and advertising; imports of technology including technical skills, capital equipment and spare parts; exploration, extraction and production of minerals and other raw materials exploitation of forestry and fisheries resources; tourism; international procurement and subcontracting; manpower and brain drain from developing countries; and the purchase and acquisition of armaments and weapons.

9. The problem of resource outflow from Africa is, therefore, multi-dimensional. Countries may lose resources as a result of the low price of primary commodities accompanied by the ever increasing prices of imported manufactured, capital and intermediate goods, the supply of which is controlled by transnationals. These same corporations also fix the prices of technology

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4/ OECD, Development Co-operation (1976 Review), Paris, November 1976.

5/ See also Mahbub ul Huq, The Poverty Curtain (Choices for the Third World), New York, Columbia University Press 1976, pp. 48-54.

managerial skills and the capital equipment required for industrial development. In terms of natural resources, they facilitate the flow of mineral resources and raw materials through their ownership and tight control of the various stages of production, marketing and distribution as well as of mineral prospecting rights and concessions. In the simplest terms, transnationals simply shift resources from the developing countries through mechanisms such as transfer pricing, the repatriation of capital, profits and dividends and excessively high service and management fees. As an illustration of this problem, prior to the issue of public shares in April 1971, a transnational subsidiary in East Africa paid dividends of over $US 750,000 to overseas shareholders with its share capital at only about $US 250,000. Between April and June of that same year, the company paid a further dividend of $US 215,000, mostly to overseas shareholders. 6/

10. In addition, the transnational corporations through restrictive business practices, especially in relation to inter-firm preferences, licencing and patents agreements, the purchase and acquisition of technology, international procurement and subcontracting, and cartel arrangements which enable particular corporations to control certain areas in Africa, have managed to stifle domestic competition thereby preventing the emergence of indigenous manufacturing enterprises. A few of the leakages are described below:

A. External debts and service payments

11. Between 1965 and 1972, the total service payments of 80 developing countries increased from about $2.8 billion to $7.3 billion. The gross resource outflow rose from $8.2 billion to $16.5 billion over the same period. The corresponding figures for developing African countries were $1.8 billion to $3.6 billion for gross flows, $455 thousand to $1.3 billion for debt service and $1.4 billion to $2.4 billion for net transfers.

12. World Bank statistics show that in 1976, gross capital inflows were about $US 7.4 billion for 34 African countries, and net inflows were $ 5.7 billion. In that same year, the African countries listed made loan repayments of about $ 1.9 billion. This figure excludes the repatriation of capital, profits, salaries and dividends. World Bank statistics also show that private lending to all developing countries will rise from $26 billion in 1975 to $80 billion in 1985 and that during the same period, outstanding

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6/ See, Steven Langdon, "The Multinational Corporation in the Kenya Political Economy" in Readings on the Multinational Corporation in Kenya, Raphael Kaplinsky (Ed.), Nairobi, Oxford University Press, 1978, p. 165.

loan balances will increase from $84 billion to $350 billion. 7/

13. In terms of the distribution of the world's financial resources, the General Assembly indicated that although impressive economic growth had been attained in the world over the past two decades or so, the benefits of technological progress were not shared equitably by all members of the international community. The developing countries, which constituted 70 per cent of the world's population, accounted for only 30 per cent of world's income. What is needed is an effective way of mitigating the problems which developing African countries face in adopting and implementing within a reasonable period of time, appropriate measures for the recovery, exploitation, development and marketing of their natural resources so as to promote a faster rate of economic growth without interference from the transnational corporations.

B. Domination of the production and distribution processes

14. One way through which the transnationals aggravate resource outflows from developing countries is through domination of the production, distribution, marketing and advertising processes. For instance, in 1977, three major transnationals controlled 50 per cent of the world market for banana imports and in 1978, five controlled the world market for tea blending. Only four controlled 87 per cent of the United States market for cigarette manufacture in 1975, and four controlled 70 per cent of the United States market for coffee processing in 1978. The same patterns of production and market controls exist in the Federal Republic of Germany and France. 8/

15. In Africa, because of the intertwining relationships between African development priorities and the objectives and activities of transnational corporations, a clash of interest may sometimes develop between host countries and the foreign investors. 9/ Although Africa shares common problems with other developing regions in finding an effective policy framework for dealing with transnational corporations, there are differences between this region and others in terms of the extent of involvement of the transnationals and their concentration in certain sectors.

7/ World Bank, World Development Report 1978 (Washington D.C.), August 1978.

8/ See UNCTAD, Marketing and Distribution of Primary Commodities: Areas for Further International Co-operation (TD/229/Supp.3), Manila, May 1979 Table I. p. 11.

9/ See also, United Nations CTC, Transnational Corporations in World Development: A Re-examination. (E/C.10/38), 20 March 1978; ECA Transnational Corporations in Africa: Some Major Issues, (E/CN.14/703), 15 March 1979; Norman Girvan. Corporate Imperialism: Conflict and Expropriation (Transnational Corporations and Economic Nationalism in the Third World), New York, Monthly Review Press 1976; Richard J. Barnet and Ronals E. Muller, Global Reach: The Power of the Multinational Corporations, New York, Simon and Schuster, 1974; G.L. Reuberm, Private Foreign Investment in Development, Oxford University Press, 1973.

16. Modern industries, especially mining and extractive industries, require huge financial or capital resources and highly sophisticated cadres, which are often beyond the reach of either indigenous enterpreneurs or governments. Furthermore, most mineral and extractive industries (as well as the commercial cultivation of some crops, such as tea, coffee, cocoa or rubber) have a very long gestation period, which means huge capital investments have to be looked up in such ventures before the yields begin to accrue. It can thus be noted that the countries with a high rate of growth in manufacturing and agriculture are those where expatriate firms have continued to play a dominant role.10/ This is an area that the World Bank could investigate with a view to providing resources so that Governments or indigenous private enterprises might effectively control the major economic sectors.

C. Fiscal charges and tariffs on primary commodities in industrialized countries

17. A hidden form of resource outflow from developing to industrialized countries takes place through fiscal charges and import tariffs on certain commodities in industrialized countries. Governments of developed nations are earning huge returns at the expense of the producer countries. For instance, in 1976, EEC earned revenues totalling $US 805.5 million from the taxation of coffee imports, $ 15.2 million from cocoa, $47.8 million from tea and $ 208.8 million from bananas. 11/ If all taxable imports of primary commodities were taken together, the results would be staggering. These earnings by the industrialized countries are in effect losses for the exporting countries because of lower retail prices.

D. Loss of foreign exchange through the manipulation of the retail prices of primary commodities

18. Another resource drain from Africa is a result of the loss of foreign exchange because of the low prices offered to exporters for primary commodities. For instance, between 1955 and 1960, the share of the retail price paid by UIC importers and received by (African) exporters was 51 per cent. This figure dropped to 57 per cent between 1961 and 1966, to 53 per cent between 1967 and 1972 and to 48 per cent in 1973. The corresponding share for cocoa was 14, 6, 9 and 8 per cent respectively for the same period. In the Federal

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10/ Norman Girvan, op.cit., Chapter 6; UNCTAD The International Market Power of Transnational Corporations (UNCTAD/ST/MD/13), 14 April 1978; and Karl P. Sauvant and Farid G. Lavipor, Controlling Multinational Enterprises: Problems, Strategies, Counterstrategies, Boulder, Colorado, Westview Press, 1976.

11/ UNCTAD, Marketing and Distribution of Primary Commodities: op.cit., Table II, p. 17.

Republic of Germany, the share received by groundnut oil exporters declined from 78 per cent in 1955-60 to 47 per cent in 1970.12/ These statistics show that through price manipulations by the transnationals, supported by their home Governments, developing countries are receiving a declining share of the retail price of their commodities with the passage of time. In other words, they are not getting the benefits from the general increase in world market prices.

19. Studies have also shown that in nine commodities of export significance to African countries, the net gain coefficients (NGC) were relatively low. NGC, the product of the fraction of gross output that does not leak out to foreign investors multiplied by the fraction of net foreign exchange earnings which is not spent on domestic resource costs, represents the real return from exports. In 1968, the gross output of Ugandan cotton was $53 million and of this about 11 per cent was paid out abroad. For Ghana, the gross output of timber was $32 million of which only $15 million accrued as foreign exchange earnings.

E. International subcontracting

20. Although international subcontracting is generally encouraged by the World Bank, an in-depth analysis would reveal that, in most cases, transnationals tend to subcontract to their subsidiaries, holding companies, affiliates or associates and that very often indigenous consulting, construction or manufacturing firms are not considered. In terms of resource outflows, it is shown that in the electronics industry, e.g. semi-conductors, radio receivers, television receivers, gramophone and sound recorders, the developed market economies imported about $838 million worth of electronic products in 1972.13/ Since most of these took place through intra-firm subcontracting, the net gain to developing countries was marginal.

F. Transfer pricing

21. Transfer pricing as a mechanism for international resource allocation by transnationals is a subject which is not fully understood in African countries largely because of a lack of evidence to show its existence. Transfer pricing refers to the establishment of prices for transactions between units, subsidiaries, or affiliates of the same corporation or different ones through tacit agreements.14/ A transnational may adopt differential pricing policies in respect of the movement of goods and services between its subsidiaries. This may also be achieved through the corporation's advantageous position in international competitive bidding or subcontracting to its subsidiaries.

12/ Ibid., Table III, p. 19.
13/ Ibid., p. 8.
14/ Transnational conglomerates may wield even greater powers of market control by enabling a transnational corporation to have indirect influence in a country in which it does not operate. See also UNCTAD, The International Market Power of Transnational Corporations (UNCTAD/ST/MD/13), 14 April 1978 (study prepared by Mr. Richard S. Newfarmer), pp. 123-127; and UNCTAD, Intra-firm Transactions and their Impact on Trade and Development (Seminar Programme), Report Series No. 2, May 1978.

Such a policy is possible because of the concentration of economic power at the corporate centre, the increase in the share of intra-corporate trade in their total trade and the large degree of vertical and horizontal integration in their activities. It is also an area where monitoring procedures by either host or home Governments are difficult to institute.

22. Developing Africa's major concern relates to the impact of transfer pricing on national development efforts. For instance, by underpricing imports to its subsidiary, a transnational corporation may actually be able to eliminate domestic competition, through price-undercutting, and thereby move itself into a monopolistic position. 15/ At the same time, a lower import invoice could reduce the total revenues which a country could otherwise raise from import duties. On the other hand, by overpricing exports, a transnational corporation may curtail or limit the exports of its subsidiary. Transnationals can also manipulate the price of exports from their subsidiaries to avoid export taxes in the host country or to show a net loss on their trading operations and obtain income tax relief.

23. The UNCTAD studies also uncovered irrefutable evidence of the use of transfer pricing by transnational corporations. In the case of one country for which data were available, it was found that they overpriced imports of certain products by anywhere from 20 to 300 per cent in comparison with world market prices. For a sample of 14 firms, the average overpricing of imports ranged from 24 to 300 per cent of world market prices. 16/ These studies demonstrate that the direct effects of United States and British transnationals on the balance of payments of their respective countries are invariably positive, and that this is particularly striking in the case of net capital flows. The compelling, conclusion here is that the flow of resources generated by transnationals is much greater from the developing countries to the industrialized countries than the other way around. Transfer pricing also distorts the profits declared by the corporations, the costs of technology and research and development and other fees paid by the affiliates and the interests paid on intra-company loans.

15/ See Michael Sharpston, International Sub-contracting, Oxford Economic Papers, 27 March 1975 (World Bank Reprint Series: Number Nineteen), pp. 121-125.

16/ UNCTAD, Main Findings of a Study of Private Foreign Investment in Selected Developing Countries, TD/B/C.3/111; and see US Senate, Committee of Finance. Implications of Multinational Firms for World Trade and Investment and for US Trade and Labour (Washington D.C. 1973); R.W. Bell, "Private Capital Movements and the US Balance of Payments Position", in Factors Affecting the US Balance of Payments, Joint Economic Committee, US Congress; Sanjaya Hall, "The Pattern of Intra-firm Exports by US Multinationals" in Oxford Bulletin of Economics and Statistics, Vol. 40 No. 3, August 1978; Sanjaya Hall, "Transfer Pricing and Developing Countries: Some Problems of Investigation" in World Development, Vol. 7, 1979, pp. 59-71.

IV. ACTIVITIES OF TRANSNATIONAL CORPORATIONS IN DOMESTIC AND EXTERNAL CAPITAL MOBILIZATION

24. The role of transnational corporations in helping African countries to mobilize resources for development is a subject of great controversy. In the typical African mixed economy, the Government determines development policy and expects the private sector, including the transnationals, to play a significant part in the financing of development projects. This expectation arises from the severe constraints imposed on the Government and its agencies concerning the mobilization of their own capital for development. Parastatal financial institutions, such as development banks, lack either the power or the opportunity to raise funds in addition to the inadequate capital subscriptions from private concerns or subventions from the Government.

25. An optimal allocation and utilization of resources can be effected by changes in monetary policy designed to control the movements of capital. 17/ This presupposes the Government's ability to adopt and implement fiscal and monetary policies on its own outside the influence or retaliatory powers of the transnationals. The truth of the matter is that the World Bank and IMF do not seem to fully appreciate the role of the transnationals in frustrating these efforts. In addition, transnational corporations do not necessarily finance projects through equity investment drawn from their own resources; they rely largely on loans for the greater portion of the financing, part of which is raised in local markets in host countries. Owing to their superior knowledge and techniques in preparing financially sound investment packages, their scale of operations and their extensive international connections, transnationals are generally able to obtain more resources at much lower rates than can be negotiated by most individual African Governments or indigenous enterprises.

26. Equally crucial to the issue of development financing is the role of transnational corporation money and banking institutions in Africa's economic development. These institutions, established mostly prior to independence, have financed foreign rather than African mining, trading and plantation interests, and profits accumulated from financial operations in Africa have commonly been sent overseas. Since independence, many African States have sought to attain greater control of their own money and banking systems in order to direct credit and investment to strategic productive sectors in industry and agriculture and to promote indigenous entrepreneurship. 18/

17/ Henry C. Wallich, "The Monetary Crisis of 1971 - The Lessons to be Learned," in the Monetary Crisis of 1971 - Lessons to be Learned, The Per Jacobsson Foundation, September 1972, Washington D.C.

18/ This goes beyond mere circulation or shifting of resources from one sector to another. It has to be linked with the whole effort to attain self-reliance. Many developing countries do not seem to know what they intend to achieve in resource mobilization and hence they tend to rely on the transnationals to take the initiative. This is what Robert S. MacNamara warned against when he said that a country's development efforts must be conceived, propagated and implemented by the country itself. This would imply restructuring the entire monetary policy to realign it with the development objectives. (Address to the

Board of Governors, 1972). To be able to do this, a country must have full knowledge of its resource potential and how it can mobilize such resources. The danger here is that because of their ownership and control of the banking institutions, transnationals can easily transfer financial resources from one country to another without any intervention from the host countries through intra-firm loans and transactions described earlier.

V. THE COST OF TECHNOLOGY ACQUISITION FROM TRANSNATIONAL CORPORATIONS

27. The purchase and acquisition of technology is another important gap in international economic relations through which resource outflow from developing Africa can be examined.19/ Three factors come into play in this regard:

(a) Transnational corporations in Africa are the organizers, vendors and transmitters of technology in all its forms. They enjoy virtually absolute powers in this aspect and are not concerned with the development impact of such technology on the economies;

(b) All research on new technology is conducted in developed countries under controlled conditions so that the transfer of skills never really takes place because African countries merely implement production and investment programmes already designed for them from the headquarters of the transnational corporations;

(c) African countries do not set aside resources for undertaking their own research programmes in science and technology. In fact, the research and experimentation on new technologies for Africa are very limited and given very low priority in African development plans and in institutions of higher learning.

19/ For detailed discussions of the full range of issues relating to the purchase and acquisition of technology, see: Miguel Wionewek, "Note on Technology through multinational enterprises in Latin America" in Development and Change (1976); Jack Baranson, "Transfer of Technical Knowledge by International Corporations to Developing Economies" in American Economic Review, May 1966; UNIDO, Technological Co-operation for Self-reliance: and Implications for Developing Countries by K.D.N. Singh (UNIDO Working Paper), 1977; UNCTAD, Major Issues arising from the Transfer of Technology to Developing Countries (Sales No. E. 75. II. D.2); F. Dessemontet, "Transfer of technology under UNCTAD and EEC draft codifications: A European view on choice of law in licencing", in Journal of International Law and Economics, Vol. 12, No. 1, 1977; World Intellectual Property Organization, Licencing Guide for Developing Countries: A Guide on the Legal Aspects of the Negotiation and Preparation of Industrial Property Licences and Technology Transfer Agreements Appropriate to the Needs of Developing Countries, WIPO Publication No. 620 (E), Geneva, 1977; M. Naim, Ideology, dependence and the control of multinational corporations: A study of the Venezuelan policy on foreign investment and technology transfer (Working Paper of the Alfred P. Sloan School of Management), Cambridge, Massachusetts Institute of Technology, April 1977; C.A. Michael, "The international transfer of technology and the multinational enterprise" in Development and Change (1976).

28. The need to increase the rate of economic growth of developing countries especially through the establishment of processing and manufacturing industries has led to wide interest in technology, its transfer and utilization. An important observation is that African countries, in line with the rest of the developing world, are almost exclusively "buyers" of commercial technology. 20/ Furthermore, technology today is not generally controlled by government agencies. Virtually all research on production techniques currently used in Africa is conducted abroad. 21/ There exists in Africa today a serious technological gap which can be bridged only through the implementation of an effective technological research programme undertaken by African countries themselves.

VI. THE DEVELOPMENT EFFECTS OF RESOURCE OUTFLOWS

29. It is evident that excessive outflows of resources from developing African countries are wide-ranging and have far-reaching implications for the socio-economic development process, such as adverse effects on employment and income distribution, foreign exchange earnings, domestic resource mobilization and domestic capital formation. One of the most significant effects, however, concerns the balance of payments. African countries continue to suffer from chronic balance-of-payments deficits, the shortage of capital to finance their development plans, poor export performance, deterioration in the terms of trade, instability in commodity prices, heavy import bills, an increasing debt burden and instability in the exchange markets. These problems make it exceedingly difficult for the countries to draw up and implement development plans to meet their aspirations.

30. From the data available in 1976, at least 26 out of 48 developing African countries had a balance-of-payments deficit. Even for those where a positive balance was recorded, the surplus was relatively insignificant in terms of the country's foreign exchange requirements. The debt service

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20/ See UNCTAD, Handbook on the acquisition of technology by developing countries, United Nations, New York (UNCTAD/TT/AS/5), 1978, p. 1.

21/ For instance, between 1951 and 1969, the United States received 21 out of 38 Nobel prices in physics, 9 out of 27 in chemistry, and 27 out of 40 in medicine and physiology. The United States also excelled in technological and industrial research. See Raymond Vernon, op.cit., p. 90. and also V.V. Bhatt, on Technology Policy and Its Institutional Frame, World Bank, Reprint Series: No. 29. This accounts for the fast rate of industrial development in the United States.

as a percentage of the exports of goods and services was also very high indicating that a good part of the foreign exchange earnings was used to service the foreign public debt. 22/.

31. The over-all effects of transfer pricing on the balance of payments of the six countries studied were found to be negative. 23/ One such effect is the export performance of transnational corporations. The findings of the studies suggest that not only do transnationals not promote exports as one might expect, given their marketing skills, superior technology, product differentiation and external contacts, but also they may in fact inhibit exports. Since transnationals plan their strategies worldwide regardless of the host country's export policy, their marketing plans may be in direct conflict with that policy. For example, a parent company may prevent a given affiliate from exporting to a particular market because it may have subsidiaries in that market or because of prior cartel agreements with other transnational corporations with regard to the same market.

22/ IMF, Balance of Payments Yearbook, (Washington D.C.); World Bank, World Development Report, 1978 (Washington D.C.), August 1978. For a full analysis of the balance-of-payments issue see UNCTAD, Main Findings of a study of private foreign investment in selected developing countries (TD/B/C.3/111, pp. 12). See also United States Senate Committee on Finance, Implications of multinational firms for world trade and investment and for United States trade and labour (Washington D.C., 1973); R.H. Bell, "Private capital movements and the US balance-of-payments position" in Factors affecting the US Balance-of-payments, Joint Economic Committee, US Congress I Polk, I Meister and L. Veit, US production abroad and balance of payments (N.Y. 1968); W.B. Reddaway, Effects of UK direct investment overseas (Cambridge, 1967); G. Hufbauer and F.M. Adler, Overseas manufacturing investment and the balance of payments (Washington D.C.; US Treasury Dept. 1968); R. Stobough, Nine investments abroad and their impact home: Case studies on MNES and the US Economy (Boston, Harvard U. Press, 1976).

23/ Balance-of-Payments effects of private foreign investment: Case studies of Jamaica and Kenya (TD/C/C.3/79 Add. 2), July 1970; Balance-of-payments and income effects of private foreign investment in manufacturing: Case studies of India and Iran, December 1971 (TD/B/C.3 (V)/Misc. 1); and Balance of payments and income effects of private foreign investment in manufacturing case studies of Colombia and Malaysia, May 1973 (TD/B/C.3(VI)/Misc.1); Balance-of-payments effects of private foreign investment in developing countries: Summary of case studies of India, Iran, Jamaica and Kenya (TD/134/Supp.1), April 1972. R.P. Streeten and S. Lall, Foreign Investment, Transnationals and Developing Countries (London: Macmillan, 1977).

32. One of the main approaches to dealing with a balance-of-payments deficit is through instruments such as monetary contraction, devaluation or import restrictions and export promotion. 24/ Other methods include adjustment of the exchange rate where a currency is pegged to another major currency, as is the case with most African countries. Alternatively, a country, especially one a strong position, like West Germany, might decide to adopt a system of floating exchange rates as a means of fighting inflation. Some of these policy instruments have been tried in African countries with only a limited degree of success or even dismal failure, as the structural adjustments in a country's monetary institutions as well as production, technological innovations and other factor mixes, cannot be easily attained without changing the nature of relationships between developing host countries and transnational corporations.

VII. SOME POLICY IMPLICATIONS

33. From the foregoing brief analysis it seems evident that monetary and financial policies at national and international levels are considerably influenced by the intricate nature of the relationships between host countries and transnationals. Developing countries have sometimes tried to mobilize domestic resources through increased domestic savings. However, it is doubtful that an effective monetary policy can be devised and implemented without adequately taking into account the interventionist policies of transnational corporations.

34. A new framework for international monetary and financial relations should take account of the following:

(a) Developing African countries should adopt new policies to regulate the direct effects of the operations of transnationals (transfer pricing, high costs of technology and management fees, excessive capital and profit repatriation) on foreign exchange, so that the resources generated in Africa can be retained to promote socio-economic development in African countries. The international lending institutions must come out clearly in support of these measures.

24/ For a theoretical discussion of this issue, see Frank H. Hahn, "The Monetary Approach to balance-of-payments" in Journal of International Economics, North-Holland Publishing Company, Vol. 7 No. 3, August 1977, pp. 231 et seq.; and also S.C. Tsiang "The Monetary Theoretic Foundation of the Modern Monetary Approach to the Balance-of-payments" in Oxford Economic Papers (Oxford University Press), Vol. 29, No. 3, November 1977, pp. 319 et seq.; see also, ECA, Balance-of-payments Problems of African Countries (CM.14/WP.2/3), 16 December 1965, pp. 1-6.

(b) A new industrial development policy should be formulated based on adequate knowledge of the existing and potential resources of African countries. In the implementation of such a policy, especially in the mineral and extractive industries, special attention should be given to the formulation of a policy of incentives and domestic protection especially where the lack of such a policy is glaringly detrimental to the development objectives and priorities of the nation. The international lending institutions must desist from encouraging the transnationals to demand special privileges in industrial regulations and incentives which clearly aggravate the outflow of resources from the country.

(c) There should be a comprehensive review of the fiscal and taxation policies relating to transnational corporations, especially with respect to profits and exports. This is important not only to increase government revenues but also to reduce the excessive outflow of capital from African countries.

(d) Developing African countries should adopt and implement a new policy of resource mobilization and utilization, more particularly with respect to the rules governing the raising of domestic capital by the transnationals and how this affects the development of competitive indigenous private enterprises. Such a policy would also review the need for greater use of equity by transnationals in financing local resource-based manufacturing or processing industries. Measures to ensure the increased access of indigenous enterprises to the foreign money and capital markets which are now the monopoly of the transnational corporations, as well as their increased participation in international procurement should also constitute an integral part of the review. The international lending institutions should device new ways of assisting the national development financial institutions in gaining access to the world money markets to raise their own resources.

35. The measures to deal with the question of excessive resource outflows would require fundamental programmes covering a wide range of economic activities. These programmes must be conceptualized, initiated, designed and implemented by the African countries themselves. The role of international organizations, such as ECA, OAU the World Bank, IMF, and other United Nations agencies, together with African regional and subregional organizations, like the African Development Bank or the African Centre for Monetary Studies would include assistance in providing the necessary training and technical and financial support to implement such a programme. These institutions, more especially, the World Bank and IMF, should make it known how they intend to deal with the issue of transnationals in the context of the excessive outflow of resources from developing African countries.